



Human Resources Division
P.O. Box 942718
Sacramento, CA 94229-2718
Telecommunications Device for the Deaf - 711
(916) 795-3065 FAX - (916) 795-4001

May 13, 2008

AGENDA ITEM 7

TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

- I. SUBJECT:** Annual Performance Review Process for
Chief Executive Officer, Chief Investment Officer, Chief
Actuary and General Counsel
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** Approve Recommended Changes to the Annual
Performance Review Process for the Chief Executive
Officer, Chief Investment Officer, Chief Actuary and
General Counsel
- IV. ANALYSIS:**

Background

The Board of Administration's Compensation Policies and Procedures include guidelines for the review and completion of each covered executive's (Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Actuary, and General Counsel) annual performance evaluation. The review is then used as the basis for recommending year-end performance awards and base salary increases.

The current process requires that the CEO complete a performance evaluation for the CIO, Chief Actuary, and General Counsel. In addition, comments are solicited from the Board President and selected Board members as outlined in the policy, and any Board member who wishes to provide input (Attachment 1). The Performance and Compensation Committee reviews the performance evaluations in closed session in August (for the CIO, Chief Actuary and General Counsel) and September (for the CEO), and recommends performance awards and base salary increases to the Board for approval.

The current process for obtaining Board member lacks continuity and does not include an opportunity for an open discussion among all members of the Board prior to completion of the final performance review. Furthermore, the review process has not provided sufficient time for two-way dialogue between the Board and the

executive regarding their past year's performance and expectations for the coming year.

At the direction of the Committee Chair, staff was asked to prepare an alternative process for reviewing executives' annual performance that would allow for a more thorough and meaningful discussion of accomplishments and expectations, and better facilitate input from all Board members. The following revision to the existing process is provided for consideration:

Chief Investment Officer, Chief Actuary and General Counsel

The annual performance reviews for the CIO, Chief Actuary and General Counsel would be conducted by the full Board of Administration in a closed session at the July Board Offsite. The review process would take place as follows:

July Offsite

- Board members review the year-end performance plan status reports, summary of accomplishments as prepared by each executive, and the CEO's ratings of each individual.¹
- The CEO and Board engage in a discussion of each executive's overall performance, evaluate the CEO's assigned ratings, and complete comments to be included in the performance evaluation document for each executive (Attachment 2).
- The Board members and CEO, if necessary, would address each executive individually regarding their prior year's performance and expectations for the coming year.

Following July Offsite

- Incorporating comments from the Board's July discussion, the CEO completes a draft performance review for the CIO, Chief Actuary and General Counsel, prior to the review by the Performance and Compensation Committee in August.
- Draft performance reviews are then shared with each executive for any response or comments they wish to make prior to the August meeting.

August Performance and Compensation Committee Meeting

- The Committee considers and ratifies the final performance review ratings, including recommendations for performance awards and base salary increases, and submits to the Board for final approval.

¹ For the CIO, only qualitative performance measures would be evaluated.

Chief Executive Officer

The annual performance review for the CEO, which is currently conducted in September by the Performance and Compensation Committee, would be conducted at the same closed session, following the CIO, Chief Actuary and General Counsel. The CEO performance review process would take place as follows:

July Offsite

- Board members review the year-end status report and summary of accomplishments prepared by the CEO.
- Board members discuss the CEO's overall performance, evaluate and assign ratings, and document rater comments to be included in the final report.
- Additional time would be allocated for a discussion with the CEO regarding the previous year's performance, and expectations for the coming year.

Following July Offsite

- The completed performance review is then shared with the CEO for any response or comments, prior to the final review by the Performance and Compensation Committee in August.

August Performance and Compensation Committee Meeting

- The Committee ratifies the final performance review ratings, including recommendations for performance award and base salary increase, and submits to the Board for final approval.

Upon approval of the revised process, proposed recommendations for changes to the policy will be presented in a separate agenda item to the Committee at a future meeting.

V. STRATEGIC PLAN:

Under Goal V of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

VI. RESULTS/COSTS:

The establishment of performance measures is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

Chris O'Brien, Chief
Human Resources Division

Gloria Moore Andrews
Deputy Executive Officer - Operations

Attachment